

April 7, 2011

Lynn M. Field, B.B.A., J.D.  
Vice President of Legal Services and Compliance  
Methodist Le Bonheur Healthcare  
1211 Union Avenue  
Memphis, Tennessee 38104-3499

Dear Ms. Field:

ECG Management Consultants, Inc., is pleased to provide this letter of engagement to assist Methodist Le Bonheur Healthcare to develop formal relationships with multiple cancer groups – notably, the oncologists of The West Clinic (TWC) and Boston Baskin Cancer Group (BBCG). This assistance includes multiple components that entail both advisory services and technical analysis related to the proposed transactions, including a fair market value (FMV) analysis that will be conducted in coordination with Jones Day, Methodist's legal counsel. ECG is familiar with the overarching goals and objectives of Methodist with respect to its cancer services and physician strategy, and we are pleased to assist with this important effort.

This letter of engagement supersedes/replaces the signed proposal between ECG and Jones Day related to the specific scope of work focusing on an FMV analysis. Nonetheless, ECG will work in close collaboration with Jones Day for specific deliverables, including the FMV analysis. The remainder of this letter includes the scope of work, project team, and estimated budget.

## **I. Scope of Work**

The project is organized into the following three components:

- Component A – Cancer Group Alignment Strategy
- Component B – PSA Development and FMV Analysis
- Component C – Hospital Financial Impact Analysis

The approach and scope of work for each component is described below.

#### **COMPONENT A – CANCER GROUP ALIGNMENT STRATEGY**

Methodist has well-established relationships with multiple oncology practices in the market, including TWC and BBCG. In partnership with the University of Tennessee (UT) and other affiliated parties, Methodist is supportive of the development of a cancer center and a service line structure. In pursuit of this goal, it wishes to achieve a high level of clinical and financial integration among oncology services that will, among other benefits, improve cost efficiency and foster a more coordinated, high-quality care delivery model. As Methodist seeks greater alignment with TWC through a PSA, Methodist wishes to explore alignment options with BBCG that are strategically, financially and legally viable. Within the framework and intent established as a result of a joint planning meeting on April 1, 2011, with representatives from Methodist, TWC, UT, and BBCG, exploring such options will be undertaken in a highly collaborative and transparent manner and shall not violate any active formal terms with any parties. As part of this component, ECG will provide advice and recommendations that advance the goal of a highly integrated physician strategy for cancer. In this role, ECG will prepare and present options for consideration, as well as facilitate meetings between the parties and conduct individual meetings with parties (with advance permission) to advance the discussions on an as-needed basis. Drawing from our knowledge of previous planning efforts to develop a cancer center and service line at Methodist in coordination with UT and our experience with physician alignment strategies and integration models on a national scale, ECG will serve as a strategic adviser to Methodist and its affiliated partners.

Provided that TWC and BBCG are mutually supportive of exploring a more integrated practice model (i.e., merger of the groups), ECG will provide, as needed, a financial analysis and conduct necessary due diligence to explore the opportunities between the practices (e.g., commercial reimbursement comparative analysis). All analyses will be conducted in a manner that ensures confidentiality and adheres to all applicable laws and regulations.

#### **COMPONENT B – PSA DEVELOPMENT AND FMV ANALYSIS**

Methodist is currently in negotiations with TWC for a PSA and other related arrangements, likely to include a comanagement component. Jones Day has been retained by Methodist to assist with these negotiations and develop the necessary definitive agreements. As they specifically relate to the PSA and related components, ECG will assist with the following items under the direction of the executive leadership team of Methodist and/or Jones Day:

- Strategic advice regarding the key provisions of the PSA and related arrangements.
- FMV analysis of the compensation component of the PSA.
- Strategic advice and recommendations regarding the scope and implications of the comanagement agreement on the development of a system-wide cancer center.

- FMV analysis of the comanagement agreement compensation (if applicable and requested).
- Other supporting analysis and/or advice regarding the structure and content of proposed arrangements between Methodist and TWC.

### *FMV Approach and Methodology*

We have established methodologies to determine FMV, depending on the arrangement. Our general approach consists of the following tasks:

- *Conducting an FMV Evaluation* – We will analyze market compensation rates for the specialty at the national and regional level (including data from the Medical Group Management Association [MGMA] and the American Medical Group Association [AMGA], as appropriate). In addition to published data, we will utilize our experience with physician recruitment packages.
- *Providing an Expert Opinion Letter Regarding FMV Compensation* – We will provide an expert opinion letter regarding the arrangement. At a minimum, the letter will contain the following elements:
  - A description of the compensation arrangement as we understand it.
  - A review of relevant compensation benchmarks, including recent trends in compensation for that specialty.
  - Our opinion regarding the compensation arrangement's conformance with market parameters.

The effort and analytical requirements in assessing FMV for physician compensation arrangements can vary significantly depending on the specialty, specified arrangement, and current market factors.

Particularly and at least with respect to Component B, ECG will verbally communicate our significant findings to Jones Day during the course of our work. All communications will be with Jones Day and not with Methodist, unless directed otherwise by Jones Day. ECG agrees not to produce any written report or conclusion related to Component B unless directed to do so by Jones Day. Upon completion of the work, ECG will, if requested, provide a written report of our significant findings. As individual issues are addressed and outline summaries are completed, they will be provided to Jones Day for its review so that ECG can address any questions and/or comments Jones Day may have at that time.



ECG understands that it is being directed by Jones Day for the FMV analysis and that communications made by representatives of Methodist to ECG within the scope of this engagement may be protected by the attorney-client privilege and the attorney work product privilege.

### **COMPONENT C – HOSPITAL FINANCIAL IMPACT ANALYSIS**

As part of the proposed transaction with TWC, Methodist will purchase certain assets from TWC, and most of the sites will become integrated, with Methodist under the provider-based reimbursement status. As part of its due diligence, Methodist seeks to estimate the financial impact of this conversion as it most notably relates to the following three elements:

- Potential drug cost savings related to the federally sponsored 340B Drug Pricing Program (for eligible sites and patient populations).
- Potential changes in government payor reimbursement.
- Potential changes in commercial payor reimbursement.

ECG will conduct an in-depth analysis to determine the financial impact of the elements listed above based on the current and historical volume of TWC. At the outset of this engagement, ECG will issue extensive data requests to TWC and Methodist. As necessary, ECG will execute confidentiality agreements with the two parties and work in collaboration with the legal teams to ensure the protection of sensitive data. In coordination with the legal teams and at the appropriate level of detail, ECG will review the results of the analyses with Methodist.

In addition to estimating the initial financial impact based on current reimbursement levels, ECG will provide strategic advice and analytical assistance regarding Methodist's commercial contracts as they relate to professional oncology services.

## **II. Project Team**

Mr. Christopher T. Collins, a Principal in ECG's Boston office, will serve as project officer, have overall responsibility of the engagement, and ensure all deliverables meet the expectations of the client and the firm's high standards. He will be present for all meetings with executive leadership of Methodist. Mr. Collins will oversee and be supported by several seasoned consultants with specialized expertise to execute the scope of work described herein. These areas include highly technical components such as physician compensation valuation and in-depth provider-based/payor reimbursement analysis. Consultants assigned to this project will have extensive direct experience applicable to the respective components.

ECG will furnish resumes of project team members and references upon request.

### III. Estimated Budget and Timing

We have structured the cost estimate to reflect the scope of work described herein. We charge for our services based on the professional fees and project-related expenses incurred. Our professional fees will be determined by the actual hours worked on the engagement at our standard hourly rates, which range from \$225 to \$350 for members of the proposed project team. Project-related expenses will include the direct cost of travel, document preparation, telephone, and other out-of-pocket expenses. We estimate the professional fees to be approximately \$186,000 for this engagement based on the proposed work plan and the following assumptions:

	Hours	Blended Rate	Fees
Component A – Alignment Strategy	160	\$313	\$ 50,000
Component B – PSA/FMV	200	\$270	54,000
Component C – Impact Analysis	280	\$279	<u>78,000</u>
TOTAL PROFESSIONAL FEES			<u>\$186,000</u>

NOTE: Figures may not be exact due to rounding.

It is our practice to bill for our services monthly, in arrears, for the professional fees and project-related expenses incurred. Monthly payments are expected within 30 business days of receipt of invoice. Out-of-pocket project-related expenses (e.g., travel expenses) are not included in the estimate above and typically average 10 to 15 percent of professional fees. If we are able to complete this assignment in fewer professional hours than anticipated, you will be billed a corresponding lesser amount. We agree to obtain prior approval from Methodist before exceeding the professional fee budget of \$186,000.

We understand that affiliated partners of Methodist may or may not share in the cost associated with one or more the components of this engagement. We will defer to Methodist to make such arrangements. Until directed otherwise, ECG will issue monthly invoices exclusively to Methodist.

We have received a retainer of \$12,500 from Methodist related to the signed proposal (for FMV analysis) dated March 18, 2011, which this letter of engagement replaces. This retainer has been reassigned to this broader project. We will credit this retainer against the final invoice.

This agreement shall be conducted subject to our standard policies and conditions, as outlined below.

- Any changes in this agreement shall be confirmed and agreed upon in writing by all parties.
- The services performed in this engagement are intended solely for internal use and may not be used externally nor included in or referred to in any offering statement, purchase or financing agreement, or other documents without our approval. Depending on the proposed use, such approval may require additional work and associated expenses.
- Should ECG be required to respond to any subpoena, reply to any request for production of documents or interrogatories, or appear for deposition in any hearing or civil proceeding arising from matters pertaining to this agreement, ECG shall be reimbursed for all expenses and professional time at standard rates.
- Similarly, we will maintain as confidential all data and other information, either written or verbal, you provide to us in connection with our work on this engagement and will not disclose it to others, except in the case of a subpoena or court order, without your prior approval.
- ECG's liability for damages will be limited to gross negligence, fraud, or willful misconduct and shall not exceed the total amount paid for the services described herein. You further agree that we will not be liable for any lost revenue or for any claims or demands against you by any other party. In no event will we be liable for incidental or consequential damages, even if we have been advised of the possibility of such damages. No action, regardless of form, arising out of the services described herein may be brought by either party more than 3 years after the date of the last services provided under this proposal.
- It is also agreed that all disputes that may arise in connection with our engagement that cannot be mutually resolved shall be submitted to binding arbitration under the rules and procedures of the American Arbitration Association.

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ECG is pleased to assist Methodist with this important and time-sensitive assignment. Do not hesitate to call us with any questions or comments regarding this letter of engagement; otherwise, please return a signed copy at your earliest convenience.

Very truly yours,

ECG MANAGEMENT CONSULTANTS, INC.

A handwritten signature in black ink, appearing to read "Chris T. Collins", with a stylized flourish at the end.

Christopher T. Collins  
Principal

CC/mdl/174028/925-03-E2

Please sign and return a copy indicating your acceptance of this proposal.

Acknowledged and Accepted By:

Date:

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